PROVINCE OF SASKATCHEWAN

10-11

PLAN FOR 2010-11

MINISTRY OF
ENERGY AND RESOURCES

MINISTRY PLAN FOR 2010-11

Statement from the Minister

Saskatchewan is blessed with an enviable diversity and wealth of energy, mineral, and forestry resources. The sustainable development of these resources has contributed greatly to the quality of life in our province: through jobs for our people, through prosperity to our communities, and through revenue that supports important social programs and infrastructure.

The Ministry of Energy and Resources has a key role in ensuring sustainable resource development, in collaboration with other government agencies and industry. We take our stewardship role very seriously, implementing policies and programs that ensure our resources continue to enrich our economy and provide value-added benefits to the people of Saskatchewan.

In the pages which follow, we outline our strategies and key actions for the management of Saskatchewan's renewable and non-renewable resources. We identify how our Plan for 2010-11 aligns with Government's direction for 2010-11, and we provide benchmarks on which our success as a ministry – and government – can be measured.

Our Plan is a companion document to the 2010-11 Provincial Budget, which offers an overarching framework for economic growth and development. I accept responsibility for furthering Government's commitments while ensuring the Ministry is managed with integrity and professionalism, with a commitment to Government's corporate values and principles. Examining programs and services to ensure the most effective and efficient delivery possible is a key priority for all ministries and an activity that will be reported on as results are achieved.

I will report on initiatives in the budget pertaining to resource development, as well as progress on our Ministry's Plan, in the upcoming annual report of our Ministry.

The Honourable Bill Boyd
Minister of Energy and Resources

Response to Government Direction

Ministry Plans for 2010-11 align with Government's **vision for a secure and prosperous Saskatchewan, leading the country in economic and population growth, while providing opportunity for a high quality of life for all**. Government's vision, goals, and priorities for the upcoming year are described in the ***Government Direction for 2010-11: Balanced. Forward-Looking. Responsible.***

Government's Plan and Budget for 2010-11 are about finding balance: responsibly managing expenditures, ensuring a solid revenue base, minimizing debt levels, and ensuring everyone can benefit from the province's economic prosperity.

To maintain the province's economic momentum, steps need to be taken to slow the growth in government expenditures. Direction has been provided to ministries to find ways to improve the effectiveness and efficiency of government's programs and services and to ensure the best use of public funds. Efforts will focus on responsible financial management and innovative solutions to improve services to the public while reducing government's overall footprint.

Similar to the ministry plans presented last year, the Plan for 2010-11 communicates a high-level framework for the Ministry's key activities and identifies how the Ministry works to support Government's goals and priorities.

Mission Statement

The Ministry works to achieve sustainable development of Saskatchewan's diverse energy, mineral, and forestry resources.

Strategies and Actions

Government Goal – Economic Growth

Sustain **Economic Growth** for the benefit of Saskatchewan people, ensuring the economy is ready for growth and positioning Saskatchewan to meet the challenges of economic and population growth and development.

Strategy	Key 2010-11 Actions
Modernize energy and resource sector business and regulatory systems	• Advance the Process Renewal and Infrastructure Management Enhancements (PRIME) project by: ~ designing and developing new oil and gas systems solutions to meet all legislative, regulatory, and stakeholder requirements; ~ revising the Ministry's oil and gas related business processes and information systems to better meet the needs of the oil and gas industry stakeholders and the Ministry; and, ~ developing electronic submission capability for licences, permits, approvals, and other oil and gas business applications. • Continue to update geological information generated and collected by the Ministry and compile in a format that can be readily used by industry.
Advance innovation and research in the energy and resource sectors	• Research and analyze the geological and market potential of commodities such as rare earth elements, natural gas from coal, platinum group metals, and chemical elements from brines. • Continue to administer the Mineral Exploration Tax Credit to encourage investment in exploration and long-term sustainable development of mineral resources. • Extend the Saskatchewan Petroleum Research Incentive (SPRI) program to 2015. • Continue funding the Petroleum Technology Research Centre (PTRC) and support the International Test Centre for CO_2 Capture (ITC) for research and capacity development in next generation oil production technologies to maintain future viability of the Saskatchewan oil industry.
Support the restructuring of the province's forest industry	• Lead the assignment of the Prince Albert Forest Management Agreement (PAFMA) to a forest industry/First Nation partnership in order to maximize the economic development potential of the PAFMA wood supply and address value-added opportunities and social and economic benefits. • Continue to engage in research and development activities surrounding the value-added opportunities of Saskatchewan's forest industry and identify potential export partners. • Continue to investigate co-generation and bio-mass projects related to wood waste utilization through information sharing, networking, and meetings with businesses interested in developing forest derived energy projects. • Continue to address recommendations and actions from the Forest Sector Team to improve industry competitiveness.

Government Goal – Security

Secure Saskatchewan as a safe place to live and raise a family where people are confident in their future, ensuring the people of Saskatchewan benefit from the growing economy.

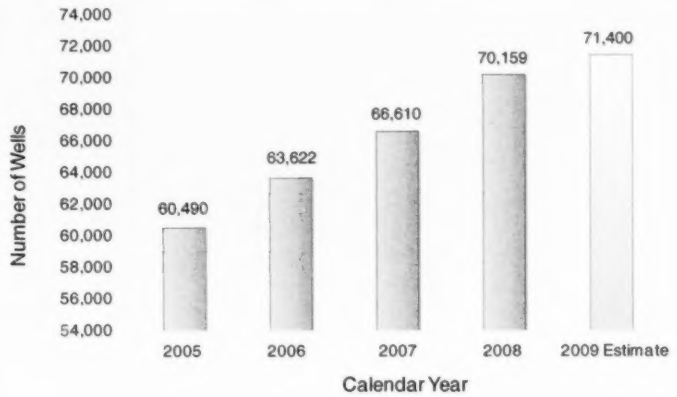
Strategy	Key 2010-11 Actions
Ensure the sustainable development of petroleum and mineral resources	• Host the Saskatchewan Geological Survey Open House and establish business relations with representatives from Asia, South America, and the United States. • Continue to manage the environmental risk and liability associated with oil and gas wells and related facilities through the Orphan Well Program. • Participate in investment attraction missions to Asia, the United States, and Europe to promote the province's natural resources and value-added opportunities. • Participate in the review and development of national standards and guidelines related to oil and gas operations to ensure the protection of the environment and public health and safety. • Promote the responsible development and conservation of oil and gas resources by providing effective regulatory oversight. • Monitor Leak Detection and Repair (LDAR) technology designed to assist in the efforts to reduce the venting and fugitive emissions from wells and facilities. • Manage interim changes to mineral regulation to ensure exploration levels are maintained.
Ensure a competitive and effective fiscal regime for resource development	• Support the Throne Speech commitment by monitoring the Province's royalty/tax regime and mineral tenure system to ensure that these remain competitive to stimulate further mineral, oil, and gas development. • Continue to allow twice the value of eligible mineral exploration expenses to be applied by companies through the end of 2010-11 fiscal year in order to maintain exploration levels. • Continue to work with Enterprise Saskatchewan to ensure regulatory barriers to resource development are addressed and development proceeds in a sustainable manner. • Consult with the oil and gas industry regarding the development of new incentives and regulatory measures designed to promote new resource plays and improve recovery from existing fields through the adoption of new technologies.

Government Goal – Promises

Keep Government's Promises and fulfill the commitments of the election, operating with integrity and transparency, accountable to the people of Saskatchewan.

Strategy	Key 2010-11 Actions
Support government efforts to encourage First Nations and Métis participation in the resource industry	• Increase Aboriginal participation in the forestry sector through consultation on forestry projects and the facilitation of partnerships between the forest industry and First Nations. • Support information sharing forums and networking opportunities between the non-renewable resource sector and First Nations and Métis businesses. • Promote the adoption of best practices in First Nations and Métis engagement in the oil, gas, and mining industries.
Support effective and efficient public and private infrastructure planning and development	• Continue to work with other provincial agencies and industry stakeholders to ensure the requirements of the resource sectors are factored into infrastructure planning.
Support New West initiatives positioning Saskatchewan as a leader among western counterparts	• Continue to pursue New West initiatives with Alberta and British Columbia including joining the Petroleum Registry of Alberta. • Participate in promotion of western Canadian resource and economic strengths in joint investment attraction missions. • Continue to develop carbon capture and storage expertise in the western region of North America.
Improve the effectiveness and efficiency of the Ministry's programs and services so as to ensure the best use of public funds	• Implement a management practice of assessment and continuous improvement to ensure a robust, objective, and multi-year assessment function. • Convert the mineral dispositions system to the new web-based Mineral Acquisition Registry Saskatchewan (MARS) infrastructure. • Review the options concerning the capacity and structure of the Ministry's subsurface geological laboratory.

Performance Measures

Measure	Baseline / Trend Line Information
Total capable oil and gas wells	

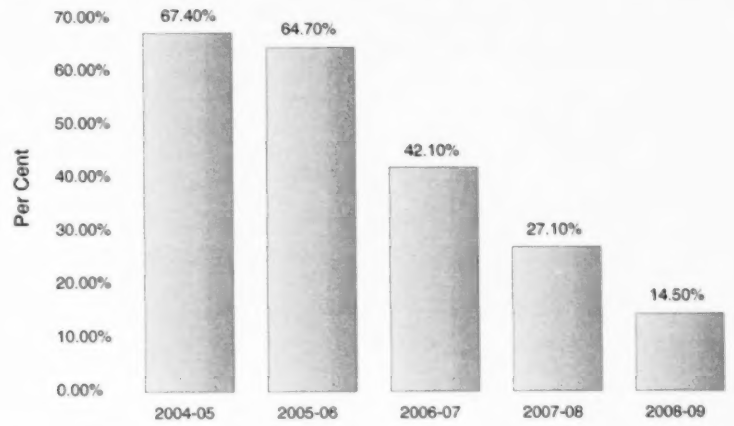
Measure Description

In the ten years from 2000 to 2009, the number of oil and gas wells capable of production in the province has increased by almost 65 per cent to number more than 71,000. This measure is an indicator of the level of regulatory and administrative processes and services required to carry out the Ministry's mandate of providing sound management of the province's oil and gas resources. Ministry officials continually monitor all oil and gas wells in Saskatchewan because of the impact these wells have on the environment and the provincial economy. Saskatchewan is the second largest oil producer in Canada (after Alberta) and the third largest producer of natural gas (after British Columbia and Alberta).

The Ministry closely monitors oil and gas well activity from a regulatory (operational safety and reservoir management) and revenue perspective (royalties and taxation). The number of capable oil and gas wells provides an indication of the total amount of information that must be maintained about each well in the province. The information that is maintained includes well records, drilling information, well status, ownership, completion information, core analyses, pressure and fluid analyses, drill stem tests, logging surveys, casing details, geologic formation tops, oil, gas, and water production levels, etc. for each well drilled under *The Oil and Gas Conservation Regulations, 1985.*

By monitoring the number of capable wells in Saskatchewan, the Ministry is able to gauge ongoing activity in the oil and gas sector which is used to forecast investment, employment, production, and provincial revenues, and plan the human and financial resources the Ministry will need to regulate the industry and collect royalties and production taxes.

Source: Ministry of Energy and Resources

Measure	Baseline / Trend Line Information
Per cent of annual allowable cut harvested, by fiscal year	

Measure Description

The percentage of the annual allowable cut harvested reflects the effectiveness of the balance between environmental protection and economic development. The annual allowable cut is determined using a variety of environmental factors to ensure long-term forest sustainability. Ministry of Environment determines the annual maximum allowable cut but individual companies determine the percentage of the allowable cut they will actually harvest based on a number of market-based factors that include demand and available prices for forest sector products. This measurement is for the commercial forest zone only and does not include the Suggi Lowlands and the Nemeiben Forest Area.

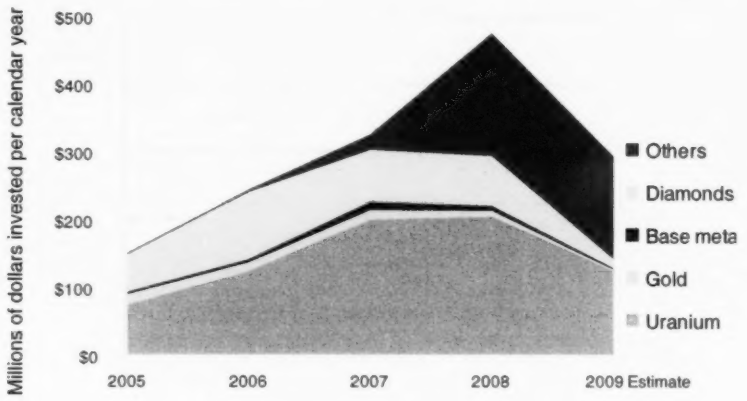
The chart above shows the extent to which Saskatchewan's forest sector has been negatively affected by the external market forces which have caused a massive downsizing of primary forest sector activity and the closure of lumber, oriented strand board (OSB), pulp, and paper mills across Canada in recent years.

The Ministry of Energy and Resources' efforts in forest development are designed to facilitate the long-term transition of the sector to a highly competitive, value-added industry. The Ministry is engaged in priority forestry activities with stakeholders intended to support research and achievement of this transition. By monitoring the amount of wood cut each year (as expressed in terms of per cent of total wood available to be cut), the Ministry is able to gauge how well its efforts and programs function. This evaluation must also be considered in view of economic and market forces prevailing in the North American market. How well these can be mitigated with government responses is often dictated by fiscal capacity, international trade agreements, and trade measures such as quotas which limit exports of forestry products.

Source: Ministry of Environment

Measure	Baseline / Trend Line Information

Mineral exploration in Saskatchewan



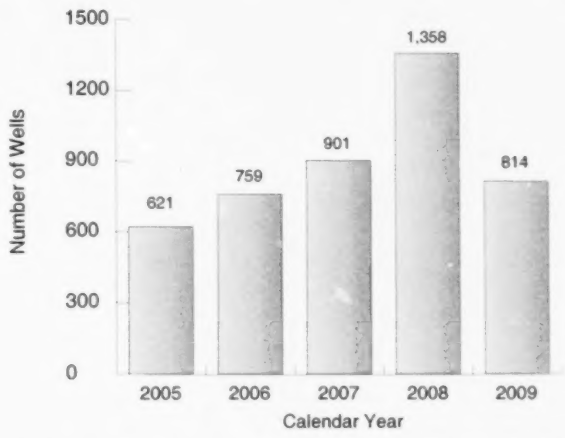
Measure Description

Saskatchewan's large and diverse mineral sector is comprised of three interrelated components: mineral exploration, mining, and value-added activities. It is one of the most technologically advanced industries in the province. Mineral exploration is crucial to sustaining and growing the sector. Due to natural resource depletion, new mineral deposits must continually be explored for and discovered, not only to enable existing mining operations to continue to operate but also to enable the expansion and growth of the sector through the development of new mining operations. Ongoing exploration also leads to the discovery of new commodities for development, broadening, and diversifying the overall mineral sector. The exploration industry includes a variety of players ranging from prospectors to junior exploration companies to senior, international corporations.

This measure tracks mineral exploration for select commodities ("others", above, includes commodities such as coal, rare earth minerals, and potash. While potash is the predominant mineral in the category, the Ministry must maintain confidentiality about data that could reveal company-specific activities). The relatively high levels of mineral exploration present a variety of opportunities for direct employment and business development particularly for both geographic regions close to the major centres of exploration, as well as for more regional centres. The measure indicates demand for Saskatchewan mineral resources and identifies possible future developments including the attractiveness of Saskatchewan, in particular, to Asian investors.

Exploration levels remained fairly strong in 2009 despite world market uncertainties and assisted modestly by the reintroduction of the Mineral Exploration Tax Credit. In May 2009, the Ministry introduced changes which benefited the industry by sustaining exploration activity during the economic downturn. These changes included allowing companies to double count the value of exploration expenses incurred between March 2009 and March 2011. This helps companies hold their dispositions while encouraging continued investment in mineral exploration. The Ministry also provided more flexibility for companies to allocate exploration expenditures among a number of commonly held mineral dispositions. The Ministry continues to monitor the impact of the global recession on the availability of credit and is especially monitoring the effects of recession on our smaller exploration companies.

Source: Ministry of Energy and Resources

Measure	Baseline / Trend Line Information
Horizontal oil well drilling	

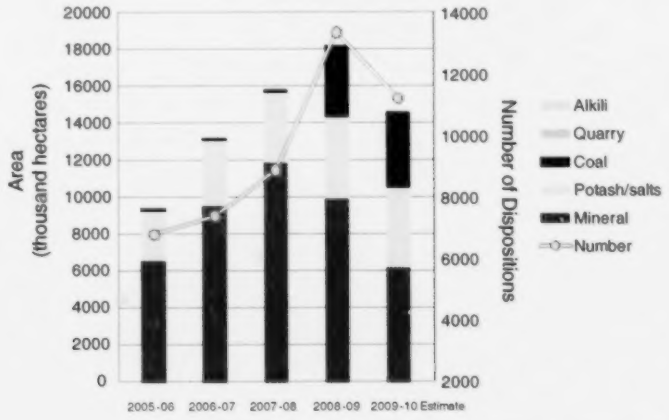
Measure Description

The level of horizontal drilling in the province is an indication of the effectiveness of the province's regulatory and fiscal provisions. It is also an indicator of the application of new and improved technologies in the province, as well as an important measure of the level of investment and drilling activity. One horizontal well often requires the same amount of metres drilled as two or three vertical wells. As a result, a decline in the total number of wells drilled does not necessarily mean a decline in the total number of metres drilled.

Depressed crude oil and natural gas prices in the latter half of 2008, and continuing into 2009, resulted in a reduction in overall drilling levels in 2009. Although the number of horizontal wells drilled in Saskatchewan in 2009 decreased from the record level established in 2008, it still represents the third highest number of horizontal wells drilled in Saskatchewan's history. Horizontal well drilling, as a percentage of total oil and gas wells drilled in the province, continues to increase and has become an accepted or standard practice in many reservoirs and parts of the province.

Saskatchewan has vast crude oil resources and the application of new and improved technologies is crucial to increasing the amount of crude oil that can be recovered from existing oil pools and to identifying potential new crude oil resources in the province. Horizontal drilling is one of those technologies that can expand and increase the amount of crude oil reserves that are recoverable in Saskatchewan. Although horizontal drilling technology has been used for more than 20 years, continuing refinements and improvements in drilling and completion technologies has resulted in more economic, precise, and successful horizontal drilling and production operations. The application of the technology, including improved hydraulic fracturing technologies, has enabled the successful development of the geologically complex Bakken Formation in southeast Saskatchewan, and has shown similar promise in the Lower Shaunavon Formation in southwest Saskatchewan and the Viking Formation in west central Saskatchewan.

Source: Ministry of Energy and Resources

Measure	Baseline / Trend Line Information
Crown metallic and industrial mineral dispositions	

Measure Description

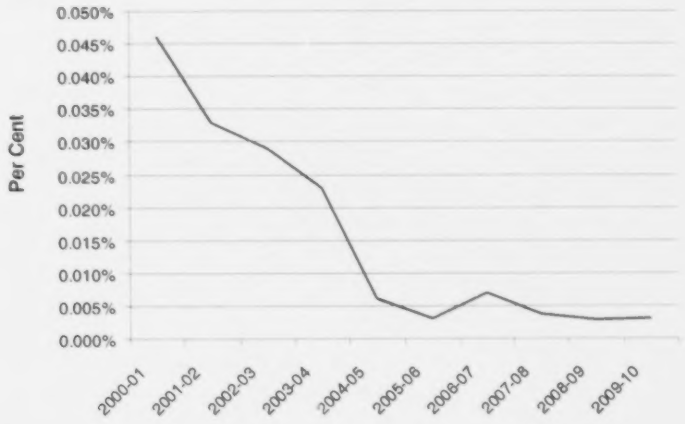
This measure indicates how well the Ministry manages rapid changes in dispositions of our variety of mineral resources to minimize delays in approvals of new claims, permits, and leases as well as registering ownership transfers to provide important service to industry. The chart above displays activity by major mineral category (in the table above, "Mineral" includes uranium, gold, diamonds, and platinum group minerals). Industry must continue to explore such deposits and determine whether development of mining or other processing options are viable. Increases in the total land area of Crown-owned mineral lands being leased and permitted for mineral exploration is an indication of how growth in mineral exploration and development activity in Saskatchewan relates to interest in specific commodities. Such activity contributes to increased likelihood of discovery of economically recoverable deposits of minerals.

As shown above, significant shifts in the area taken up by mineral dispositions, for specific commodities, are an indication of the attractiveness of Saskatchewan's resources. In 2008, great interest grew in coal while potash interest grew modestly and the area for uranium, diamonds, and other precious metals or rare earths fell back. This does not mean market interest in these commodities is dwindling but it could mean that companies are completing exploration work in certain areas. In addition, dispositions for these resources generally occur in the northern part of Saskatchewan which is relatively less complicated in terms of land ownership matters affecting disposition of lands.

The mineral sector is vital to Saskatchewan's economy, contributing over $200 million each year in Crown revenues used to support important social programs. Mining supports 20,000 jobs, including almost 2,000 direct jobs in northern Saskatchewan and contributes over $2 billion annually in wages, goods, and services.

Related to its plan to develop a new web-based Mineral Acquisition Registry System (MARS), the Ministry will complete improved methods of electronically mapping mineral ownership in the province. These improvements, over time, will assist Government and industry by providing clarity and certainty over a variety of legal interests affecting Crown mineral lands.

Source: Ministry of Energy and Resources

Measure	Baseline / Trend Line Information
Uncollectible resource revenues	

Measure Description

The term "uncollectible revenues" refers to the amounts of non-renewable resource revenues that are written off as bad debts and are expressed as a percentage of revenues recorded. This measure reflects the Ministry's ability to properly ensure all resource revenues owed to the Province are collected.

The Ministry takes action to achieve an acceptable level of assurance that all royalties, taxes, and fees to which the Province is entitled are properly determined and reflected in the Ministry's accounting records, and that the amounts owing are paid. In order to achieve an acceptable level of assurance, the potential risks are evaluated, auditing and monitoring processes and procedures are established, and human and technical resources are utilized to mitigate those risks. The Ministry assesses the adequacy of these processes and resources on an ongoing basis, and enhances them as deemed necessary.

Inherent in this measure is a reflection of the financial stability of resource companies carrying on business in Saskatchewan. The lower the percentage of uncollectible revenues, the more stable the private sector companies remitting payments to the Province.

Source: Ministry of Energy and Resources

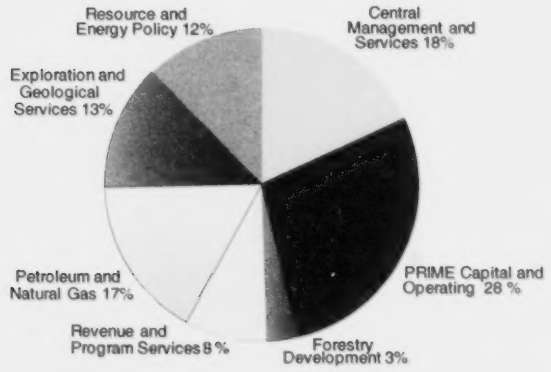
Financial Summary

Highlights of Appropriation and Expense 2010-11

2010-11 Estimates	(In thousands of dollars)
Central Management and Services	20,377
Forestry Development	1,390
Revenue and Program Services	3,725
Petroleum and Natural Gas	7,368
Exploration and Geological Services	5,751
Resource and Energy Policy	5,408
Ministry Operations Appropriation	**44,019**
Capital Asset Acquisitions	(10,500)
Capital Asset Amortization	4,201
Total Expense	**37,720**
FTE Staff Complement	**260.5**

For more information, see the Budget Estimates at: http://www.finance.gov.sk.ca/budget/2010-11

Ministry Spending by Division 2010-11


Resource and Energy Policy 12%
Central Management and Services 18%
Exploration and Geological Services 13%
PRIME Capital and Operating 28 %
Petroleum and Natural Gas 17%
Revenue and Program Services 8 %
Forestry Development 3%

HIGHLIGHTS

Balanced:

- Development of a new forestry development framework for the Province.
- Leadership, along with the Ministry of Environment, on the allocation of wood volumes under the Prince Albert Forest Management Agreement (FMA) and the assignment of the FMA to new partnership of the forest industry and First Nations.

Forward-looking:

- Furthering of "new west" co-operation through Saskatchewan joining the Petroleum Registry of Alberta – part of the Ministry's Process Renewal and Infrastructure Management Enhancements (PRIME) Project.
- Support to the innovation being fostered at the Petroleum Technology Research Centre (PTRC) through $2.5 million in continued funding to the PTRC in 2010-11.
- An additional $1.4 million in third party grants to support energy and forestry industry research.
- Coordination of major investment attraction missions to Asia with respect to mineral exploration, the oil and gas industry, and carbon capture and storage research.
- Continued promotion of the Province's mineral resource opportunities at major industry marketplaces- the Prospectors and Developers Association of Canada (PDAC) conference in Toronto and the Mineral Exploration Round-Up in Vancouver.

Responsible:

- Support to the PRIME Project, which improves service to the oil and gas industry and increases Ministry efficiency, through provision of $10.5 million in capital funding and $1.9 million in expense funding to the project in 2010-11 (the second year of the project).
- Implementation of the Mineral Administration Registry of Saskatchewan (MARS), an initiative which will assist in the improved management of land dispositions.
- Transfer of title of more than 34,000 hectares of federally-owned minerals to Saskatchewan.

For More Information

Please visit the Ministry's website at www.er.gov.sk.ca for more information on the Ministry's programs and services.